



# Retired Educator

## CalSTRS Funding Goes Over the Top Higher Investment Returns Shorten Repayment Period

**T**he California State Teachers' Retirement System hit the goal of every pension system. CalSTRS is fully funded as of June 30, 1998, according to the latest actuarial valuation. This means on that date CalSTRS had all the money needed to cover the cost of the benefit plan in effect in 1998.

This milestone was reached ahead of the 1997 valuation's prediction. At that time, it was estimated the unfunded liability would be paid, or amortized, in three years. The valuation process measures the Teachers' Retirement Fund's unfunded liability using demographic

information, economic assumptions and CalSTRS member statistics.

A higher than anticipated investment rate of return is the primary reason for the quicker than expected fully funded status. The market value of the CalSTRS investment portfolio reached more than \$88 billion on June 30, 1998. This is an increase of 18 percent and more than \$13 billion from the previous year. The current market value of the investment portfolio exceeds \$96 billion.

"The attainment of this long-sought goal is both gratifying and energizing," said Teachers' Retirement Board Chair Emma Zink. "The strong funding status gives us opportunities to further improve benefits without jeopardizing the foundation of the Teachers' Retirement Fund."

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## From the Desk of Marty Mathiesen

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### Teachers' Retirement Board Retired Member Representative

I have some good news for many of us. CalSTRS is addressing an important issue for retired members and their families—health care insurance coverage.

CalSTRS is currently studying the feasibility of providing health insurance benefits to benefit recipients and active members. In April, a survey was mailed to about 10,000 CalSTRS members and spouses. About 4,000 went to retired members, as well as surviving spouses and disabled members receiving a benefit. Approximately 6,000 surveys were mailed to active members. In addition, each California school district will provide input about health benefits they offer.

The survey is part of a study to determine if a health care benefit program is needed for active and retired members, their spouses and dependents. The survey is part of an effort mandated by legislation passed in 1998. Health, vision and dental insurance coverage are included in the study.

In a few months, fellow board members and I will receive recommendations based

on the results of the survey. The recommendations will deal with whether a statewide health care benefits program should be developed by CalSTRS and, if so, what services should be provided by such a program. After the board acts on the recommendations, staff will assess the best way to administer a program. CalSTRS staff could administer the program or a third party could do it. In any case, we must be sure to design a

program that is integrated with Medicare and Medi-Cal.

Regardless of how the health care benefits program is administered, it will be paid for by participants and/or their employers.

Finally, if a program is feasible, CalSTRS and the board must put legislation together and make every effort to see that it passes.

This is an important undertaking for CalSTRS. I think this study is one of the biggest things this board has ever tackled. I mentioned this to the rest of the board in a recent meeting and I know they agree with me. As we go through the stages of the study, I will keep you all posted.

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# Customer Survey Results Positive

**C**alSTRS wants to know what you, our valued customer, needs and wants from your retirement system. So, in January, a broad-based customer survey was sent to a representative sample of members to discover your satisfaction with CalSTRS services.

If you were one of the members who were a part of the sample, the valuable time you took to answer the questionnaire is appreciated. Questions covered:

- user friendliness of the retirement application packet and forms
- efficiency and effectiveness of retirement application processing
- benefit payment timeliness and accuracy
- promptness and clarity of requests for additional information
- effectiveness of CalSTRS publications
- ease, efficiency and professionalism of member contacts with CalSTRS staff
- interest in using Internet-based services

Several questions were asked in each area and members could rate the importance of each subject. The combination of satisfaction and importance gives a clear picture of CalSTRS services and products that are fully satisfactory and those that are important and in need of improvement.

Survey results showed:

- high levels of satisfaction with the professionalism and courtesy of CalSTRS staff

- high levels of satisfaction with CalSTRS publications
- relative dissatisfaction with contacting CalSTRS on the 800 telephone number
- unique concern among members, who have applied for disability benefits, about being kept informed during the their disability applications processing
- willingness to use a Personal Identification Number to access account information by a margin of four to one
- 60 percent of members have Internet access
- comments indicated retired members and survivors are less likely to have access to and use the Internet, while active members have more access and use it more

CalSTRS listens to members and has a commitment to meet your needs and expectations. CalSTRS is reviewing business practices you have highlighted as needing improvement and will continuously improve them. Improving access to CalSTRS is one of our highest priorities and is now a pivotal element in the CalSTRS strategic plan.

CalSTRS staff believe in providing customer satisfaction and are dedicated to making progress in the services provided to members. To measure progress in customer satisfaction, CalSTRS will be surveying members on a regular basis.

#### CalSTRS Vision Statement

CalSTRS is committed to lifetime security and service that meets the changing needs of California's educators.

#### CalSTRS Retired Educator

State of California  
Gray Davis, Governor  
Aileen Adams, State and  
Consumer Services Secretary

#### Teachers' Retirement Board

Emma Zink, Chairperson	Phil Angelides, State Treasurer
Lillian Raffel, Vice Chairperson	Kathleen Connell, State Controller
Yvonne Gallegos Bodle, Ph. D.	Delaine Eastin, Superintendent of Public Instruction
George Fenimore	B. Timothy Gage, Director of Finance
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Marty Mathiesen	

James D. Mosman, Chief Executive Officer  
Patrick Mitchell, Chief Investment Officer  
Jennifer DuCray-Morrill, Chief External Affairs Officer

Sherry Reser, Managing Editor  
Susan Skeoch, Editor

Information in this publication about teachers' retirement law or policy is meant as a guide only. If a conflict arises between information contained in this publication and the law, the law takes precedence.

The CalSTRS *Retired Educator* is published twice a year for retired members and benefit recipients of the California State Teachers' Retirement System. Comments or suggestions may be directed to: Editor, Public Affairs, MS #34, P.O. Box 15275, Sacramento CA 95851.

Printed on recycled paper



# First Elk Hills Funds Transfer Celebrated

## Supports Purchasing Power

**A** long-awaited event occurred in April. To mark the first payment to California of Elk Hills Petroleum Reserve sale proceeds, U. S. Secretary of Energy Bill Richardson traveled to the Bay Area to attend a celebration with Governor Gray Davis, CalSTRS representatives, retired teachers and representatives from the teaching community.

### Event Featured Several Speakers

At the April event, Secretary Richardson presented an oversize check for \$36 million from the Department of Energy to Governor Davis and Teachers' Retirement Board members. CalSTRS Chief Executive Officer James D. Mosman opened the event in the Diego Rivera Theater at City College of San Francisco. Governor Davis praised the role of teachers in the lives of their students and recalled a high school teacher of his who inspired him. Then Secretary Richardson spoke of the long effort to sell Elk Hills assets and transfer the funds to California for retired educators.

In her remarks, TRB Chair Emma Zink said, "the benefit increase from this payment will add to our retired teachers' quality of life and also to the pride of independence that means so much to all of us."

In October 1997, the Department of Energy agreed to sell the Elk Hills Petroleum Reserve to Occidental Petroleum for \$3.65



*U.S. Secretary of Energy Bill Richardson, right, presents a check to, from left, TRB member Marty Mathiesen, TRB Chair Emma Zink and Governor Gray Davis.*

billion. Capping a decades-long effort to obtain compensation for the "school lands" portion of the Reserve, CalSTRS and California were scheduled to receive 9 percent of the sales price, or about \$320 million. The agreement stipulated that California and CalSTRS would receive the proceeds of the sale in seven annual installments, and the first installment of \$36 million was paid to California in April. CalSTRS Chief External Affairs Officer Jennifer DuCray-Morrill, Bill Morrison from California State Lands Commission and Dan Siegel from the State Attorney

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*Admiring the check are, left, Bill Morrison, State Lands Commission and Dan Siegel, State Attorney General's Office.*

# Retired Teachers Continue to Serve

## Value of Work Exceeds \$23 Million

**T**he role retired teachers play in improving the quality of life for all Californians was recognized in the first Retired Teachers' Week, April 18-24, 1999. The observance was proclaimed by the California Legislature at the request of the California Retired Teachers' Association and had as its theme "Make the Time to Make a Difference."

The special week in April honored the contributions retired teachers make to their communities. In 1998 alone, according to CRTA President Georgianna Galas, retired teachers volunteered more than 1.7 million hours, valued at more than \$23 million. Volunteer activities included youth reading programs, hospice care, transportation for the blind and tutorial

assistance for pregnant mothers to complete high school.



*CRTA President Georgianna Galas presents a check representing the value of retired teachers' voluntary hours to TRB Chair Emma Zink.*

## First...

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General's Office led the California effort to negotiate the funds transfer.

### Payments Support Purchasing Power

Payments from the Elk Hills sale support the CalSTRS purchasing power protection program. This program helps when inflation erodes retirement allowances below a certain level of purchasing power. CalSTRS supplements the monthly allowance of the most senior benefit recipients to a maximum of 75 percent of purchasing power. Purchasing power is a measure over time of how much your

income can buy. Before the Elk Hills sale, the minimum was set at 68.2 percent.

The state was originally granted the land at Elk Hills for school purposes, in addition to other state school lands located around California, at the time California joined the Union. Revenue from the lands was earmarked for California educators. The land was set aside as a petroleum reserve before World War I. Beginning in 1976, the land was no longer held as a reserve and was developed for petroleum production by the federal government.



# Diversification Ensures Safe, Successful Retirement Fund

Patrick Mitchell,  
Chief Investment Officer



**Y**our retirement benefits have never been more secure. Hooray! This spring the California Teachers' Retirement System investment portfolio approached \$100 billion in market value. This tremendous growth should be seen as a validation of the Teachers' Retirement Board's policy of taking diligent action to balance safety and liquidity with an expectation of high investment returns.

As the Chief Investment Officer, I have written a series of articles describing the philosophy that the Teachers' Retirement Board sets forth in the CalSTRS Investment Management Plan. This plan guides the overall decision-making process concerning the Teachers' Retirement Fund investment portfolio. The foundation for CalSTRS' investment philosophy contains the cornerstones of globalization and diversification.

In the last *Retired Educator*, I discussed globalization and now I'd like you to understand the important role diversification plays in securing a "rock solid" investment portfolio.

## Diversification Reduces Risk

Diversification is spreading out the investments over a variety of asset categories to help cushion the bumps of a volatile capital market. These investment categories are: domestic stocks, international stocks, real estate and alternative investments.

In accordance with the management plan, CalSTRS keeps the investments in each category within a certain range to ensure a stable overall performance of the portfolio. Each month the categories are measured against the portfolio's total value. Action is taken, either buying or selling, when a particular category is above or below its targeted percentage of the total value.

Domestic stocks, for example, are targeted for about 38 percent of the total assets, while domestic bonds and international stocks have a 26 percent and 25 percent target respectively. Real estate and alternative investments are targeted at about 5 percent each.

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## Diversification...

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The success of the investment portfolio is partly the result of excellent investment returns, it is true. However, the substantial improvement in the California economy deserves credit as well. What happens if the economy is not so robust? We still want a safe and secure investment fund. It is in the bad times when diversification is important. The CalSTRS' investment portfolio response to the recent volatility in the domestic equity market illustrates and validates the need for diversification.

During the past twelve months, the domestic equity market was more like a roller coaster than an investment vehicle. Interest rates couldn't decide if they should plod along or race to unexpected highs or lows. In the third quarter, the domestic equity market was one of the worst performing of CalSTRS' asset categories, but in the fourth quarter, it was one of the best performers. Despite the volatility in investment categories, the CalSTRS investment portfolio placed, in both quarters, in the top third of all pension plans nationally.



### Diversification Has Critics

One complaint many people have about the idea of a broadly diversified investment portfolio is that it lacks imagination and insight. Mechanical models specifying strategic allocation percentages in asset categories stifle creativity and individuality. Critics of diversification point out that if one could correctly predict the direction of the stock market, substantial returns could be generated. However, 1998 proved that even the smartest professionals could not anticipate changes in the capital market, which caused some of the most respected investment firms to end the year with massive losses.

### Diversification Works for CalSTRS

Diversification works well for CalSTRS. Diversification is a prime reason for the Teachers' Retirement Fund's outstanding portfolio success. Diversification allowed the CalSTRS investment portfolio to hold a substantial amount of equity-related securities without undue exposure to excessive volatility.

# Post-Retirement Earnings Limitation

## Guidelines for Working After Retirement

**S**ince you retired for service from CalSTRS, you may have considered working. If you have considered public education, there are some restrictions you should know about working in the public school system in California, and the amount you can earn, without affecting your CalSTRS retirement allowance.

### Type of Employment

The limits apply to your public school work each school fiscal year, if you perform creditable service as:

- ☐ an employee of a public school system,
- ☐ an independent contractor, or
- ☐ an employee of a third party

### Income Limit

From July 1, 1999, to June 30, 2000, you can earn from public school employment up to \$19,050 before your allowance is affected. (Each July 1, the post-retirement earnings limit is adjusted to reflect specific increases.) If you earn more than the \$19,050 limit, your monthly retirement allowance will be reduced by the amount of creditable earnings from employment in excess of the limit.

If your excess public school earnings are more than the total amount of your CalSTRS allowance, your entire allowance will be withheld. This could result in the

cancellation of any deductions taken from your monthly allowance, such as health insurance premiums or association dues.

### Limitation Exemptions

There are some exemptions from the earnings limitation. Members who are hired by school districts to provide direct instruction to students, in newly-created grades K-3, until permanent teachers can be recruited, or are temporarily filling positions in grades 4-12 created due to a teacher transferring to a classroom in K-3 within the same district to meet the objectives of the Class-Size Reduction program, can be exempt, provided documentation is submitted by your employer. For more information on this and other exemptions, call CalSTRS Public Service Office.



### Employment Outside Public Schools

You may accept employment outside the California public school system in any capacity and continue to receive your CalSTRS service retirement allowance with no limitation on your earnings.

**Note:** For information regarding earnings limitations for member receiving a disability retirement, call CalSTRS and select Teletalk message # 454—Earning Limitations After Disability Retirement. See page 10 for telephone numbers.





# Summer 1999 Legislation Update

On April 8, 1999, the Teachers' Retirement Board adopted a valuation that determined, as of June 30, 1998, the Teachers' Retirement Fund was fully funded and had assets that were about \$3 billion more than the fund's liabilities. The board is in the process of identifying its priorities for using surplus assets currently available, as well as assets that may become available in the future.

**R**etired members will be interested in the following legislation currently proceeding through the legislative process:

▲ AB 684 (Honda) would provide CalSTRS members a compounded 2 percent COLA

▲ AB 820 (Assembly PER&SS Committee) would permit members to receive Supplemental Benefit Maintenance Account payments on a monthly, rather than quarterly, basis

▲ SB 159 (Johnston) would require CalSTRS to develop a program to provide health care benefits for members, beneficiaries, children and dependent parents

▲ SB 833 (Ortiz) would provide the new benefits enhancements, including the career bonus, to members who retired in 1998. The career bonus would be provided to members who retired before 1998, if they return to teaching and earn at least 30 years of service credit

In response to the fully funded status recently achieved, AB 429 (Correa) has been introduced to authorize the Teachers' Retirement Board to establish a gainsharing program to provide benefits to active and retired CalSTRS Defined

Benefit Program members, after setting aside funds to maintain the fully funded status and protect the program from potential downturns in earnings. Because the DB Program has historically been underfunded, the concept of gainsharing is something the TRB has not had the need to consider. AB 429 establishes a policy for allocation of gainsharing revenue to retired and active members, based on the relative liabilities of the program associated with active and retired members. For example, in the 1998 valuation, the total DB Program liabilities attributable to retired members and other current benefit recipients were 42 percent of the total program liabilities, and the percentage attributable to active members was 58 percent of total liabilities. Under AB 429, 42 percent of gainsharing revenue would be allocated to benefits for retired members and 58 percent would be allocated to benefits for active members.

The means by which these funds would be allocated to individual members will be identified as the bill progresses through the Legislature or in later legislation.

To stay up to date on the gainsharing proposal and other CalSTRS legislation, please refer to External Affairs on the CalSTRS Web site, [www.calstrs.ca.gov](http://www.calstrs.ca.gov).

# New Logo Reflects National Stature

## CalSTRS Moves to Protect Identity

**A**s the nation's largest teachers' retirement system, other states increasingly have come to look to the California State Teachers' Retirement System for leadership in issues affecting the public pension arena. The efforts to prevent mandatory Social Security coverage for new teachers is just the latest such issue in which CalSTRS influences the national pension picture.

Due to the national, proactive stature CalSTRS has achieved, the Teachers' Retirement Board recently approved a new logo to avoid any confusion with the "STRS" of other states.

The new CalSTRS symbol builds on the existing one by adding the state name and outline. When printed in full color, the state outline is golden, the letters "STRS" are a deep blue with the remaining portions in black.

CalSTRS will phase in the new logo over the next nine months, replacing materials

as supplies are depleted in order to avoid unnecessary costs. By the year's end, the new look will be the single identifying emblem of the retirement system for California's educators.

### Legal Protection Sought

CalSTRS is also taking steps to legally protect the name and new logo against their unauthorized use by parties seeking to gain commercially by offering products or services that appear to be CalSTRS related. Some private companies have designed logos or developed names or acronyms remarkably similar to STRS, CalSTRS or State Teachers' Retirement System. Legal registration of the name and new logo may help slow down misleading practices by some commercial entities.

If you have any doubts about whether you are dealing with a CalSTRS staff person, call the Public Service Office. See below for CalSTRS telephone numbers.



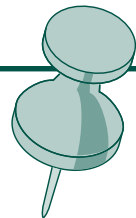
## How to reach us...

**Call CalSTRS Public Service Office:**  
800-228-5453  
916-229-3870  
916-229-3541 for TDD

**Browse CalSTRS Web site at:**  
[www.calstrs.ca.gov](http://www.calstrs.ca.gov)

**Write CalSTRS at:**  
California State Teachers'  
Retirement System  
P.O. Box 15275  
Sacramento CA, 95851-0275

When contacting CalSTRS, be sure to include your Social Security number.



# Computer System Ready for 2000

**C**alSTRS is ready for the year 2000. Earlier this year, the CalSTRS Y2K project team completed a comprehensive Y2K update effort on the online computer system, the primary mission-critical system used by CalSTRS. All activities that affect active member and benefit recipient accounts occur within this system. The computer system is now fully tested to be Y2K compliant and CalSTRS is already processing benefit payments in a Y2K compliant environment.

## CalSTRS' Year 2000 Efforts

In carrying out its mission, CalSTRS interacts with a number of outside entities. One of the most significant ones is the California State Controller's Office. The SCO prepares all CalSTRS' checks and processes all electronic funds transfer payments to members' banks. To ensure uninterrupted payment of benefits, CalSTRS and SCO performed a joint, *successful* test to process benefit payment information and generate payments.

CalSTRS must anticipate that, despite staff's best efforts, some areas beyond its control, such as utilities, telephone systems, and banking infrastructures may not have their Y2K compliance issues resolved on time. To address such risks, CalSTRS has begun a contingency planning effort to reduce the risk of Y2K problems affecting minor processes and systems.

## A Storm (Maybe), Not A Catastrophe

As December 31, 1999, draws closer, experts across all industries are beginning to announce completion of Y2K computer remediation efforts. In a recent Y2K discussion, a leading international authority on information technology advised citizens to prepare for Y2K problems as they would for a storm—not an apocalypse—and that 90 percent of systems that do fail will be corrected within three days. Therefore, for most people, planning for year 2000 issues requires only getting through January 2000. See below for tips on preparing for January 2000.

## Y2K Personal Protection Tips

- ✓ **Keep a paper trail of all your financial records, especially the third and fourth quarter of this year and early next year.**
- ✓ **Carefully check ATM and bank transaction receipts and compare them to your monthly statement.**
- ✓ **Order a copy of your credit report from one of the three major credit bureaus: Equifax at 800-685-1111 Experian at 800-682-7654 TransUnion at 800-888-4213.**
- ✓ **If you own a personal computer or home office product, check with the manufacturer to see if it is vulnerable to Y2K problems.**
- ✓ **If you decide to withdraw money because of Y2K concerns, make reasonable decisions based on solid information. Cash or other valuables in the house make good targets for thieves.**
- ✓ **Watch out for Y2K scams, and be skeptical of any Y2K-proof investment.**

Tips Courtesy: *Sacramento Bee*, *Inside Business*, April 26, 1999, and information from the Federal Trade Commission Web site, the President's Council on the Year 2000 Conversion, *Time Bomb 2000* by Edward Yourdon and Jennifer Yourdon and the Gartner Group.

# HICAP Provides Vital Senior Service

**H**ave you had a question concerning a Medicare claim? Wary of switching from Medicare to a health maintenance organization? If so, you can get counseling and answers from staff of the Health Insurance Counseling and Advocacy Program.

Trained volunteers in offices around the state provide unbiased information over the telephone, in personal counseling sessions or during presentations to community groups. They help you understand your rights and make the best choices in this important area of life for retired CalSTRS members.

You can call on HICAP staff for several types of service, including legal assistance and representation at a Medicare claim appeal hearing. They can help Medicare

beneficiaries and their families understand:

- your rights as a health care consumer
- Medicare benefits
- Medicare supplemental health insurance
- health maintenance organizations
- long-term care insurance

## HICAP Supported by State Programs

HICAP volunteers are trained and certified by the California Department of Aging and the program is supported by grants from state Area Agencies on Aging.

## For More Information

If you want more information, wish to talk with a HICAP volunteer or even arrange for a presentation to your community group, call 800-434-0222 for a referral to a telephone number in your area.

The information above is from "Helping You Make Sense of Medicare and Health Insurance" from HICAP.

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